

NL INDUSTRIES INC
Form 10-Q
August 04, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2008
Commission file number 1-640

NL INDUSTRIES, INC.
(Exact name of Registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

13-5267260
(IRS Employer Identification No.)

5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240-2697
(Address of principal executive offices)

Registrant's telephone number, including area code: (972) 233-1700

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Number of shares of the Registrant's common stock outstanding on July 31, 2008: 48,598,634.

NL INDUSTRIES, INC. AND SUBSIDIARIES

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Items 2, 3 and 5 of Part II are omitted because there is no information to report

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 2007	June 30, 2008 (unaudited)
Current assets:		
Cash and cash equivalents	\$ 41,112	\$ 30,849
Restricted cash and cash equivalents	4,970	9,794
Marketable securities	5,860	5,503
Accounts and other receivables, net	23,492	21,678
Inventories, net	24,277	25,911
Prepaid expenses and other	1,516	2,419
Deferred income taxes	6,474	6,205
Total current assets	107,701	102,359
Other assets:		
Marketable equity securities	113,393	148,598
Investment in Kronos Worldwide, Inc.	147,119	144,120
Pension asset	17,623	19,297
Goodwill	54,719	54,749
Assets held for sale	3,117	2,817
Other assets, net	7,856	8,022
Total other assets	343,827	377,603
Property and equipment:		
Land	12,346	12,785
Buildings	35,963	36,203
Equipment	127,801	127,056
Construction in progress	2,659	3,172
	178,769	179,216
Less accumulated depreciation	105,536	106,510
Net property and equipment	73,233	72,706
Total assets	\$ 524,761	\$ 552,668

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2007	June 30, 2008 (unaudited)
Current liabilities:		
Accounts payable	\$ 8,769	\$ 10,167
Accrued liabilities	27,188	28,405
Accrued environmental costs	11,863	9,527
Income taxes	136	163
Total current liabilities	47,956	48,262
Non-current liabilities:		
Note payable to affiliate	49,730	49,230
Accrued environmental costs	38,467	37,911
Accrued postretirement benefit (OPEB) costs	9,865	9,643
Accrued pension costs	1,665	1,492
Deferred income taxes	91,124	103,144
Other	25,126	25,392
Total non-current liabilities	215,977	226,812
Minority interest	14,366	13,595
Stockholders' equity:		
Common stock	6,073	6,074
Additional paid-in capital	345,338	336,966
Retained deficit	(6,525)	(6,525)
Accumulated other comprehensive loss	(98,424)	(72,516)
Total stockholders' equity	246,462	263,999
Total liabilities, minority interest and stockholders' equity	\$ 524,761	\$ 552,668

Commitments and contingencies (Note 10)

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2007	2008	2007	2008
	(unaudited)			
Net sales	\$ 45,229	\$ 43,708	\$ 88,780	\$ 84,228
Cost of sales	33,368	32,727	64,797	63,805
Gross margin	11,861	10,981	23,983	20,423
Selling, general and administrative expense	6,571	6,504	13,237	12,908
Other operating income (expense):				
Insurance recoveries	109	1,601	2,586	1,684
Other expense, net	(732)	(57)	(792)	(88)
Corporate expense	(8,515)	(6,960)	(13,444)	(10,736)
Loss from operations	(3,848)	(939)	(904)	(1,625)
Equity in earnings (losses) of Kronos Worldwide, Inc.	(10)	2,085	4,599	1,945
Other income (expense):				
Interest and dividends	1,370	5,151	2,469	6,125
Securities transactions, net	(47)	20	56	10
Interest expense	(48)	(504)	(102)	(1,266)
Income (loss) before income taxes and minority interest	(2,583)	5,813	6,118	5,189
Provision for income taxes (benefit)	(1,838)	1,563	207	1,013
Minority interest in after-tax earnings	785	285	1,675	501
Net income (loss)	\$ (1,530)	\$ 3,965	\$ 4,236	\$ 3,675
Net income (loss) per basic and diluted share	\$ (.03)	\$.08	\$.09	\$.08
Cash dividend per share	\$.125	\$.125	\$.25	\$.25
Weighted-average shares used in the calculation of net income per share:				
Basic	48,589	48,595	48,587	48,594
Dilutive impact of stock options	-	8	9	8
Diluted	48,589	48,603	48,596	48,602

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE
INCOME

Six months ended June 30, 2008

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive loss (unaudited)	Total stockholders' equity	Comprehensive income
Balance at December 31, 2007	\$ 6,073	\$ 345,338	\$ (6,525)	\$ (98,424)	\$ 246,462	
Net income	-	-	3,675	-	3,675	\$ 3,675
Other comprehensive income, net	-	-	-	25,908	25,908	25,908
Issuance of common stock	1	102	-	-	103	-
Dividends	-	(8,474)	(3,675)	-	(12,149)	-
Balance at June 30, 2008	\$ 6,074	\$ 336,966	\$ (6,525)	\$ (72,516)	\$ 263,999	
Comprehensive income						\$ 29,583

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six months ended June 30,	
	2007	2008
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 4,236	\$ 3,675
Depreciation and amortization	5,695	4,770
Deferred income taxes	(1,770)	(1,538)
Minority interest	1,675	501
Equity in earnings of Kronos Worldwide, Inc.	(4,599)	(1,945)
Dividends from Kronos Worldwide, Inc.	8,758	8,758
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension expense	(1,220)	(1,485)
Other postretirement benefit expense	315	238
Other, net	219	572
Change in assets and liabilities:		
Accounts and other receivables, net	(632)	81
Inventories, net	(3,565)	(1,637)
Prepaid expenses and other	524	(876)
Accrued environmental costs	(2,688)	(2,892)
Accounts payable and accrued liabilities	718	1,165
Income taxes	(587)	(5)
Accounts with affiliates	(6,667)	2,120
Other, net	(1,613)	(2,224)
Net cash provided by (used in) operating activities	(1,201)	9,278
Cash flows from investing activities:		
Capital expenditures	(5,603)	(3,476)
Collection of note receivable	1,306	1,306
Change in restricted cash equivalents and marketable debt securities, net	1,928	(4,827)
Proceeds from disposal of:		
Marketable securities	9,608	361
Property and equipment	43	250
Purchase of:		
CompX common stock	-	(1,006)
Marketable securities	(5,861)	-
Net cash provided by (used in) investing activities	1,421	(7,392)

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Six months ended June 30, 2007 2008 (unaudited)	
Cash flows from financing activities:		
Cash dividends paid	\$ (12,147)	\$ (12,149)
Distributions to minority interest	(1,131)	(412)
Other, net	203	(50)
Net cash used in financing activities	(13,075)	(12,611)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(12,855)	(10,725)
Currency translation	695	462
Cash and cash equivalents at beginning of period	52,742	41,112
Cash and cash equivalents at end of period	\$ 40,582	\$ 30,849
Supplemental disclosures – cash paid for:		
Interest	\$ 56	\$ 1,305
Income taxes, net	9,003	425
Noncash investing activity - receipt of TIMET shares	\$ 11,410	\$ -
Accrual for capital expenditures	1,232	293

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

Note 1 - Organization and basis of presentation:

Organization - We are majority-owned by Valhi, Inc. (NYSE: VHI), which owns approximately 83% of our outstanding common stock at June 30, 2008. Valhi is majority-owned by subsidiaries of Contran Corporation. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (for which Mr. Simmons is the sole trustee) or is held directly by Mr. Simmons or other persons or companies related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran, Valhi and us.

Basis of presentation - Consolidated in this Quarterly Report are the results of our majority-owned subsidiary, CompX International Inc. We also own 36% of Kronos Worldwide, Inc. which we account for by the equity method. CompX (NYSE: CIX) and Kronos (NYSE: KRO) each file periodic reports with the Securities and Exchange Commission ("SEC").

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 that we filed with the SEC on March 12, 2008 (the "2007 Annual Report"), except as discussed in Note 11. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2007 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2007) normally included in financial statements prepared in accordance with accounting principals generally accepted in the United States of America ("GAAP"). Our results of operations for the interim period ended June 30, 2008 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2007 Consolidated Financial Statements contained in our 2007 Annual Report.

Unless otherwise indicated, references in this report to "NL," "we," "us" or "our" refer to NL Industries, Inc. and its subsidiaries and affiliates, including Kronos, taken as a whole.

Note 2 – Accounts and other receivables, net:

	December 31, 2007	June 30, 2008
	(In thousands)	
Trade receivables	\$ 21,129	\$ 20,791
Other receivables	1,535	1,256
Receivable from affiliates:		

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Income taxes – Valhi	1,271	-
Refundable income taxes	217	233
Allowance for doubtful accounts	(660)	(602)
Total	\$ 23,492	\$ 21,678

Note 3 – Inventories, net:

	December 31, 2007	June 30, 2008
	(In thousands)	
Raw materials	\$ 6,341	\$ 9,156
Work in process	9,783	9,204
Finished products	8,153	7,551
Total	\$ 24,277	\$ 25,911

Note 4 - Marketable equity securities:

	December 31, 2007	June 30, 2008
	(In thousands)	
Current assets (available-for-sale):		
Restricted debt securities	\$ 5,301	\$ 5,304
Other marketable securities	559	199
Total	\$ 5,860	\$ 5,503
Noncurrent assets (available-for-sale):		
Valhi common stock	\$ 75,064	\$ 128,325
TIMET common stock	38,329	20,273
Total	\$ 113,393	\$ 148,598

Our investments in Valhi and Titanium Metals Corporation (“TIMET”) common stock are accounted for as available-for-sale marketable equity securities carried at fair value based on quoted market prices, a Level 1 input as defined by SFAS No. 157. See Note 11. At December 31, 2007 and June 30, 2008, we owned approximately 4.7 million shares of Valhi common stock and 1.4 million shares of TIMET common stock. At June 30, 2008, the quoted market price of Valhi’s and TIMET’s common stock was \$27.25 and \$13.99 per share, respectively. At December 31, 2007, such quoted market prices were \$15.94 and \$26.45 per share, respectively.

Note 5 – Investment in Kronos:

At December 31, 2007 and June 30, 2008, we owned approximately 17.5 million shares of Kronos common stock. At June 30, 2008, the quoted market price of Kronos’ common stock was \$15.39 per share, or an aggregate market value of \$269.6 million. At December 31, 2007, the quoted market price was \$17.45, or an aggregate market value of \$305.7 million. The change in the carrying value of our investment in Kronos during the first six months of 2008 is

summarized below:

	Amount (In millions)
Balance at the beginning of the period	\$ 147.1
Equity in earnings of Kronos	1.9
Dividends received from Kronos	(8.7)
Other, principally equity in other comprehensive income items of Kronos	3.8
Balance at the end of the period	\$ 144.1

Selected financial information of Kronos is summarized below:

	December 31, 2007	June 30, 2008
	(In millions)	
Current assets	\$ 621.7	\$ 647.8
Property and equipment, net	526.5	559.1
Investment in TiO2 joint venture	118.5	115.6
Other noncurrent assets	188.3	207.6
Total assets	\$ 1,455.0	\$ 1,530.1
Current liabilities	\$ 224.5	\$ 235.8
Long-term debt	590.0	658.7
Accrued pension and postretirement benefits	149.9	151.9
Other non-current liabilities	79.6	81.2
Stockholders' equity	411.0	402.5
Total liabilities and stockholders' equity	\$ 1,455.0	\$ 1,530.1

	Three months ended June 30, 2007		Six months ended June 30, 2007	
	2008		2008	
	(In millions)			
Net sales	\$ 342.6	\$ 391.9	\$ 656.6	\$ 724.4
Cost of sales	279.0	332.7	522.6	608.1
Income from operations	23.6	9.7	52.9	19.4
Net income	-	5.8	12.9	5.4

Note 6 – Accrued liabilities:

December 31,	June 30, 2008
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	2007 (In thousands)	
Employee benefits	\$ 8,896	\$ 7,899
Professional fees	4,322	5,455
Payable to affiliates:		
Income taxes – Valhi	-	865
Note payable to TIMET	250	750
Accrued interest payable to TIMET	559	451
Other	340	322
Reserve for uncertain tax positions	289	55
Other	12,532	12,608
Total	\$ 27,188	\$ 28,405

Note 7 – Other non-current liabilities:

	December 31, 2007		June 30, 2008	
	(In thousands)			
Reserve for uncertain tax positions	\$ 22,128	\$	22,538	
Insurance claims and expenses	1,381		1,305	
Other	1,617		1,549	
Total	\$ 25,126	\$	25,392	

Note 8 - Provision for income taxes:

	Six months ended June 30,	
	2007	2008
	(In millions)	
Expected tax expense at U.S. federal statutory income tax rate of 35%	\$ 2.1	\$ 1.8
Non-U.S. tax rates	-	(.1)
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	(2.2)	(1.2)
U.S. state income taxes, net	.4	.4
Change in reserve for uncertain tax positions, net	.1	.1
Nondeductible expenses	.1	.2
Other, net	(.3)	(.2)
Total	\$.2	\$ 1.0

Tax authorities are examining certain of our U.S. and non-U.S. tax returns and have or may propose tax deficiencies, including penalties and interest. We cannot guarantee that these tax matters will be resolved in our favor due to the inherent uncertainties involved in settlement initiatives and court and tax proceedings. We believe we have adequate accruals for additional taxes and related interest expense which could ultimately result from tax examinations. We

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believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. We currently estimate that our unrecognized tax benefits will decrease by approximately \$2.0 million during the next twelve months due to the resolution of certain examination and filing procedures related to one or more of our subsidiaries and to the expiration of certain statutes of limitations.

Note 9 – Employee benefit plans:

Defined benefit plans - The components of net periodic defined benefit pension cost (income) are presented in the table below.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2008	2007	2008
	(In thousands)			
Interest cost	\$ 777	\$ 787	\$ 1,533	\$ 1,554
Expected return on plan assets	(1,451)	(1,561)	(2,899)	(3,121)
Recognized actuarial losses	74	41	146	82
Total	\$ (600)	\$ (733)	\$ (1,220)	\$ (1,485)

Postretirement benefits - The components of net periodic postretirement benefits cost are presented in the table below.